

We have the intellectual leadership, the managerial expertise, and the burning desire to succeed. And, happily for us, we have the truth on our side.

If anyone doubts that, let him or her look at all the calamities, the miseries, the cruelties, and the stupidities of every form of collectivism and interventionism. With truth on our side we cannot, we must not, we *will not* fail!

Thank you. Thank you very much for listening to me.

Mrs. Mises delivered this speech in February 27, 1984 at the Mises Institute dinner in her honor in New York City.

Ludwig von Mises: Hero

Llewellyn H. Rockwell, Jr.

When Ludwig von Mises died in New York City in 1973 at the age of 92, the liberals hardly noticed. There was no front page obituary in the *New York Times* and Walter Cronkite didn't mention it on the CBS Evening News. But libertarians and conservatives knew that a giant had fallen, for Mises had the greatest mind of our time, and he had employed it in a life-long, uncompromising, and effective fight for freedom.

Today, his influence is more widespread than ever before. And his ideas remain the core of the movement for a free market, sound money, private property, and individual liberty. As his great student Murray N. Rothbard pointed out, "If the world is ever to get out of its miasma of statism, it will have to move to the high ground that Mises developed for us."

Ludwig von Mises was born in 1881 in the Austro-Hungarian Empire city of Lemberg, the son of a successful engineer. At

the age of 19, he entered the University of Vienna, and received his doctorate at 27.

At this time, the university was the world center of free-market economics, and Mises studied under its two greatest teachers, Carl Menger and Eugen von Böhm-Bawerk. These two founders of the Austrian school of economics were responsible for a revolution in economics that successfully refuted Marxism—something the followers of Adam Smith had been unable to do.

Smith could not understand why, for example, diamonds should be more expensive than food, since food is so much more useful. This “value paradox” could never be solved, he said. All value that could be understood, however, came from the labor that went into production. Followers of Smith agreed, and said that diamonds must have a higher “exchange” value while food had a higher “use” value. They also saw a class conflict, claiming that if wages went up, profits would have to go down, and vice versa.

Karl Marx, building on these errors, preached class war, and said that profit must therefore be “surplus value” stolen from the workers, and that the only just system was production for “use” rather than profit.

The Austrian economists solved the problem by focusing on the individual, and not on classes. They built their theories on the actions of consumers in the real world, and saw that each of us makes decisions based on our own personal preferences, and that business people are constantly trying to serve those preferences. Therefore, economic value cannot be inherent in products; it is only conferred by consumer desires.

I might spend an entire week making a giant mud pie, but a product that has no value to consumers has no economic worth, no matter how much labor goes into it.

And, yes, all the foods in the world is more valuable than all the diamonds, but we are never forced to make that choice. Instead, we make our economic valuations “at the

margin.” That is, the greater the number of units of a desired economic good, the less we will value any given unit, and vice versa. That’s why a canteen of water has so much more value in the desert than in your kitchen sink.

The Austrians also showed that capital—and its share of production, i.e. profit—was as necessary as labor, and that in a free market, they work together to satisfy consumers. The only “conflict” is between competitors, not between owners and employees, and that conflict is over who can best satisfy consumers.

The classical economists—Smithian and Marxian—also did not understand the role of interest. The Austrians, again looking at individuals, saw that people would rather consume now than in the future. All other things being equal, we would rather take a vacation this year than next. Thus “time-preference” is the reason for interest: the payment for deferring consumption.

Investors who put up capital to start a business are also deferring consumption (whereas employees get paid immediately), and their payment is called profit. In fact, the “normal” rate of profit in a free market is the interest rate.

In this stimulating atmosphere the young Ludwig von Mises studied, and in the honored tradition of scholarship, went on to surpass his teachers. For, as great as the founders of the Austrian school were, there were serious gaps and errors in their theories. Mises filled the gaps, corrected the errors, and went on to rebuild the entire science of economics on a sound free-market basis.

This would have been a magnificent and enduring achievement had Mises, like his teachers, been able to work in peace. His great work is all the more incredible because it was accomplished at great personal cost and despite unceasing opposition from academic leftists in Europe and the U.S.

After receiving his Ph.D., the young Mises set to work on *The Theory of Money and Credit*, his first great work published

in 1912. The earlier Austrians, mimicking one of Smith's mistakes, had put money in a separate category from the rest of the economy. Mises repaired this split, showing that just as the price of any commodity is determined by supply and demand, so is the "price" of money, its purchasing power. The demand for money is determined by the desire of consumers to hold cash rather than something else.

Some of the classical economists, especially David Ricardo, had seen that an increase in the supply of money causes prices to increase. But Mises showed that this increase is not proportional. When the government increases the money supply, the "price level" doesn't rise by that amount. The amount and speed of price increases depend on the people's desire to hold cash. That's why, during an inflation, prices can increase faster or slower than the money supply.

Mises also showed that inflation, through relative price changes, brings about a redistribution of wealth, from savers and earners to the banking system and the government and related special interests. Even more damaging, he showed, are the misinvestments that inflation brings about.

When government inflates, it lowers the interest rate below what it would otherwise have been. This encourages bad business and investment decisions during the inflationary boom. When the inflation slows or stops, these mistakes are seen for what they are, and the result is bankruptcies and unemployment. That is, government is the cause of the business cycle. Through inflation, it brings about recessions and depressions.

In this pathbreaking book, Mises also showed that the institution of money originated in the market as a valuable commodity, and was only later nationalized (and debauched) by government. He also demonstrated that gold is the best monetary commodity, and that only a gold standard could prevent inflation. A central bank (like the Federal Reserve to be established the next year), he noted, would inevitably bring reces-

sions, depressions, and suffering for the majority, although a small minority would benefit from its depredations.

The publication of *The Theory of Money and Credit* made the 31-year old Mises one of the top economists in Europe, but World War I was soon to end the gold standard and relative laissez-faire of the previous century, and renew the ancient evils of statism and inflation.

The new atmosphere was, of course, much less conducive to a man like Ludwig von Mises, and as a result he never received the academic rewards that were his due. Although he was appointed a professor of economics at the University of Vienna, it was to an unsalaried position. His income, from 1909 until 1934 when he left Austria, came from his position as economic advisor to the Austrian Chamber of Commerce, a government body roughly equivalent to the U.S. Department of Commerce. This was also where he established the prestigious Austrian Institute for Business Cycle Research.

Among his duties, he had to write economic analyses of proposed government actions, and he managed almost single-handedly to keep Austria from following Germany into hyperinflation during the early 1920s.

His famous Mises seminar in these years attracted the best minds in Europe, and produced many great economists including Nobel-prize winner F. A. Hayek. In addition to his unpaid teaching and his government work, Mises continued his writing and research. His next major work came in 1922: *Socialism*.

This book demonstrated that socialism could not function in an industrial economy. Since they have no free-market price system, socialist planners are incapable of calculating costs or rationally planning production. The result of any socialist system, he predicted, would be economic chaos.

And, just as important, he showed that semi-socialism or government interventionism cannot function efficiently either. So, he noted, if total or partial government planning cannot work, we are left with the free market.

Not content with being the leading champion of the free market, Mises also set to work on the foundation of economics—its “methodology.” Mises saw that economics was increasingly coming under the sway of the nihilistic “institutionalism” which virtually denies economics altogether, and of the pseudo-scientific “positivism,” which apes physics and treats people as mere consciousnessless objects.

Mises’s answer was the science of “praxeology,” which bases economics on the deductive logic that human beings are unique individuals, each with their own purposes and their own ideas about how to achieve them. His major works here were *Epistemological Problems of Economics* and especially the later *Theory and History* and *Ultimate Foundation of Economic Science*.

Mises saw that positivism, which has since swept the non-Austrian portions of the economics profession, was especially dangerous. Not only was it scientifically invalid, but by treating people as inanimate objects to be manipulated, it gave would-be social engineers the perfect intellectual framework and justification for their destructive activities.

Despite all the early opposition, Mises, during this time, saw a quickening of interest in his ideas, although it was only a temporary spring. When other economists were proclaiming the new age of perpetual prosperity in the 1920s, Mises was the only one to predict the Great Depression. In the early 1930s, many important economists became Misesians, but after the publication of John Maynard Keynes’s *General Theory* swept the academic world, Mises’s followers—with the shining exception of F.A. Hayek—became Keynesians.

Undaunted, and in exile in Geneva from fascist Austria, Mises next set about to reconstruct the whole of economics upon the individualistic foundation he had built. He did it in his monumental *Nationalökonomie*, published in 1940 and instantly forgotten in the turmoil of World War II. It was this work, later expanded and translated into English as the 900-page *Human Action*, that was his crowning achievement.

In Geneva came another milestone in Mises's life; he married the beautiful Margit Sereny—after warning her that while he would write much about money, he would never have much of it—and in 1940 they immigrated to the United States.

At a time when every left-wing professor was given a high academic post in the United States, Mises was refused any job—a permanent blot on American universities. Finally, with the help of Henry Hazlitt and Lawrence Fertig, Mises secured a visiting professorship at New York University's Graduate School of Business. His salary was paid by business people and foundations, and he was never a regular member of the faculty.

Treated as a second-class citizen by the university, whose business school dean lobbied good students not to take his classes (which were relegated to the basement and scheduled at inconvenient times), Mises was neither bitter nor resentful. With gentle brilliance, he carried on the fight for Austrian economics and freedom. "We well knew," wrote Professor Rothbard, "that in the very aura and person of Ludwig von Mises that we were seeing an embodiment of the Old Vienna of a far nobler and more charming day. Those of us privileged to attend his seminar at NYU could well understand how Mises was a great teacher as well as a great economist."

When he retired in 1969, a spry 87, Ludwig von Mises had been the oldest active professor in the United States. He could look back on a lifetime of teaching and writing—25 books and more than 250 scholarly articles—and of incredible achievements for liberty. His students Wilhelm Roepke and Ludwig Erhard had turned West Germany towards freedom and the resulting "economic miracle." In Italy, Mises's student Luigi Einaudi had, as president, led the successful fight against postwar Communism. In France, his student Jacques Rueff—as economic advisor to General DeGaulle—led the fight for the gold standard and pushed back many statist economic controls. In the United States, Mises produced—

despite his circumstances—such students as Murray N. Rothbard and Israel Kirzner.

Sadly, he did not live to see the renaissance of interest in his work, which began with F. A. Hayek's Nobel prize in 1974, granted for the Mises-Hayek theory of the business cycle.

Since Mises's death, the center of this new interest has been his widow. She has been, in Murray Rothbard's words, "a one-woman Mises industry," supervising the reprinting, translation, and new editions of his works, and chairing the Ludwig von Mises Institute. She has also written her own moving memoirs, *My Years with Ludwig von Mises*.

Socialism and its variants still control most of the world, but, notes Dr. Rothbard, "everywhere, in all spheres of thought and action, the modern statism that Ludwig von Mises combatted all his life, is coming under a swelling drum-fire of criticism and disillusion." This resurrection of the spirit of freedom—and our work to encourage it—is the only appropriate monument to the life and thought of a great and noble man.

Memories of Ludwig von Mises

William H. Peterson

I look back with special pleasure and deep respect on that giant of our age, Ludwig von Mises (1881-1973). How he shone in his students' lives and minds, gently schooling us in the meaning of human action and the free market.

Today we glory in the truth of Misesian economics, and marvel at his lonely and courageous struggle against heavy odds. As the 20th century's uncompromising defender of laissez-faire economics and human liberty, and as the leader